



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

August 31, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

August 31, 2000

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 1999 Taxes for Laurel County Sheriff as of August 31, 2000. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected net taxes of \$10,181,358 for the districts for 1999 taxes. The Sheriff distributed taxes of \$9,777,929 to the districts for 1999 Taxes. Taxes of \$15,123 are due to the districts from the Sheriff and refunds of \$4,021 are due to the Sheriff from the taxing districts.

Debt Obligations:

None.

Report Comments:

- Advertising Costs Recovered From Taxpayers Should Be Paid To The Fiscal Court
- The Sheriff Should Have Published The Sheriff's Annual Settlement With The County
- The Sheriff Should Settle Amounts Owed And Collect Amounts Due
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account On A Monthly Basis

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

Subsequent Event:

None.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 1999 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Jimmy Williams, Laurel County Judge/Executive

Honorable Gene Hollon, Laurel County Sheriff

Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the Laurel County Sheriff's Settlement - 1999 Taxes as of August 31, 2000. This tax settlement is the responsibility of the Laurel County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Laurel County Sheriff's taxes charged, credited, and paid as of August 31, 2000, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2001, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Jimmy Williams, Laurel County Judge/Executive

Honorable Gene Hollon, Laurel County Sheriff

Members of the Laurel County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance.

- Advertising Costs Recovered From Taxpayers Should Be Paid To The Fiscal Court
- The Sheriff Should Have Published The Sheriff's Annual Settlement With The County
- The Sheriff Should Settle Amounts Owed And Collect Amounts Due
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account On A Monthly Basis

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -

December 14, 2001

LAUREL COUNTY
GENE HOLLON, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

August 31, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 940,913	\$ 772,878	\$ 4,655,725	\$ 1,763,421
Tangible Personal Property	196,976	141,623	977,243	725,761
Intangible Personal Property				210,687
Fire Protection	1,551			
Taxes Increased Through Erroneous				
Assessments	432	336	2,143	1,593
Franchise Corporation	98,566	71,760	488,326	
Unmined Coal - 1999 Taxes	78	60	389	147
Oil/Gas Property Taxes	9	7	47	18
Penalties	10,384	8,492	51,229	22,021
Adjusted to Sheriff's Receipt	11	49	(3)	7
Gross Chargeable to Sheriff	<u>\$ 1,248,920</u>	<u>\$ 995,205</u>	<u>\$ 6,175,099</u>	<u>\$ 2,723,655</u>
<u>Credits</u>				
Exonerations	12,048	9,449	59,690	24,687
Discounts	16,298	12,992	80,599	39,875
Delinquents:				
Real Estate	56,983	46,825	281,294	106,643
Tangible Personal Property	3,805	2,736	18,881	14,010
Intangible Personal Property				4,896
Uncollected Franchise	25,381	18,656	125,773	
Total Credits	<u>\$ 114,515</u>	<u>\$ 90,658</u>	<u>\$ 566,237</u>	<u>\$ 190,111</u>
Net Tax Yield	\$ 1,134,405	\$ 904,547	\$ 5,608,862	\$ 2,533,544
Less: Commissions *	<u>48,500</u>	<u>38,443</u>	<u>147,678</u>	<u>107,963</u>
Net Taxes Due	\$ 1,085,905	\$ 866,104	\$ 5,461,184	\$ 2,425,581
Taxes Paid	1,076,176	859,736	5,423,527	2,418,490
Refunds (Current and Prior Year)	<u>5,757</u>	<u>4,240</u>	<u>28,634</u>	<u>11,112</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 3,972</u>	<u>\$ 2,128</u>	<u>\$ 9,023</u>	<u>\$ (4,021)</u>

* and ** and see Page 4

LAUREL COUNTY
GENE HOLLON, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES
August 31, 2000
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	4,562,496
2.647% on	\$	5,542,548
1.5% on	\$	66,314

** Special Taxing Districts:

Library District	\$	433
Health District		407
Extension District		72
Soil District		453
Bush Fire District		<u>763</u>

Due Districts	\$	<u><u>2,128</u></u>
---------------	----	---------------------

The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

August 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 31, 2000, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
August 31, 2000
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 7, 1999 through August 31, 2000.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1999. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 26, 2000 through August 31, 2000.

Note 4. Interest Income

The Laurel County Sheriff earned \$28,184 as interest income on 1999 taxes. The Sheriff did not distribute the appropriate amount to the school districts and did not make monthly distributions as required by statute. As of December 14, 2001, the Sheriff owes \$2,966 in interest to the school districts.

Note 5. Sheriff's 10% Add-On Fee

The Laurel County Sheriff collected \$75,920 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of December 14, 2001, the Sheriff owes \$71 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Laurel County Sheriff collected \$5,135 of advertising costs and \$4,967 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff did not distribute the advertising costs to the county as required by statute. Advertising fees were used to operate the Sheriff's office as allowed by statute. As of December 14, 2001, the Sheriff owes \$5,135 in advertising costs to the county and an additional \$320 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1999 taxes, the Sheriff had \$5,243 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department and should deposit the \$5,243 into an escrow account.

COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS

August 31, 2000

1) Advertising Costs Recovered From Taxpayers Should Be Paid To The Fiscal Court

The Sheriff reported collections from taxpayers of \$5,135 for advertising costs on 1999 taxes. The advertising costs were deposited into the Sheriff's fee account but should have been deposited into the Sheriff's tax account. We recommend advertising costs collected from taxpayers be deposited into and accounted for in the Sheriff's tax account. Furthermore, KRS 134.440 states that when the fiscal court has previously paid the expense, advertising costs recovered from taxpayers should be subsequently paid to the County Treasurer. Since the Fiscal Court has previously paid for advertising, we recommend the Sheriff remit the \$5,135 to the Fiscal Court.

Sheriff's Response:

We will correct immediately.

2) The Sheriff Should Have Published The Sheriff's Annual Settlement With The County

The Sheriff did not publish his annual settlement with the fiscal court. KRS 134.310 requires the settlement to be published pursuant to Chapter 424. The report of the settlement shall be subject to objections by the Sheriff or by the County Attorney, who shall represent the state and county, and the county judge/executive shall determine objections. Objections shall be submitted to the county judge/executive within (15) days of the filing of the settlement in the Clerk's office. If no objections are submitted, the settlement will become final. We recommend the sheriff publish his annual settlement as required by KRS 134.310.

Sheriff's Response:

We believe it was published. We will ensure this is done in the future.

3) The Sheriff Should Settle Amounts Owed And Collect Amounts Due

The Sheriff should settle amounts owed and collect amounts (due Sheriff) as follows:

State	(\$4,021)	Library	\$433
County	3,972	Health	407
Common School	8,164	Extension	72
East Bernstadt	859	Soil	452
		Bush Fire	763

We recommend these amounts be paid and refunds collected as soon as possible.

Sheriff's Response:

We will pay amounts due as noted.

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS
August 31, 2000
(Continued)

4) Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account On A
Monthly Basis

The Sheriff earned interest in his tax account but did not remit payment to the school districts on a monthly basis as required by KRS 134.140(3)(b). KRS 134.140(3)(b) states "at the time of the Sheriff's monthly distribution of taxes to the district board of education, the Sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes". The Sheriff did pay interest to the schools, but not on a monthly basis. The Sheriff owes an additional \$2,897 to the Laurel County School District and \$69 to the East Bernstadt School District. He has also overpaid his fee account by \$680. We recommend the Sheriff remit payment to the school districts and reimburse the tax account for the \$680 in overpayment of interest.

Sheriff's Response:

We will take care of immediately.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The Sheriff Should Collect Prior Year Refunds Due
- Interest Earned In Tax Account Should Be Paid To Fee Account
- The Sheriff Should Have Published The Sheriff's Annual Settlement With County

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Jimmy Williams, Laurel County Judge/Executive

Honorable Gene Hollon, Laurel County Sheriff

Members of the Laurel County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Laurel County Sheriff's Settlement - 1999 Taxes as of August 31, 2000, and have issued our report thereon dated December 14, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's Settlement - 1999 Taxes as of August 31, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- Advertising Costs Recovered From Taxpayers Should Be Paid To The Fiscal Court
- The Sheriff Should Have Published The Sheriff's Annual Settlement With The County
- The Sheriff Should Settle Amounts Owed And Collect Amounts Due
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account On A Monthly Basis

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed
December 14, 2001

